INSTITUTIONAL RESEARCH

FMCG

D2C is here to stay; omni-channel the way forward

In continuation to our D2C thematic–Changing Landscape Not Fully Factored In–we recently hosted multiple founders and experts in the D2C space. The three-day event threw up many insights, some of which corroborate our earlier thesis that rise of digital native brands causes disruptions, while some give us insights into the rising focus of incumbents in the digital space. The participants of the conference held a unanimous view that while D2C is here to stay, omni-channel is what most players will adopt to scale up and stay relevant. While we maintain our view that D2C and new age brands would scale up and gain size (~8-10% of the FMCG basket) over the next five years, this may be impacted in the near term by headwinds like lower liquidity, high customer acquisition cost in digital, and higher inflation, which would impact unit economics. Thus, new age businesses will need to pivot to self-sustaining business models. We maintain our underweight view on the FMCG sector and maintain REDUCE on HUL, Nestle, Britannia, and Emami. We rate ITC as a BUY and maintain ADD on Dabur, Marico, GCPL, and Colgate.

Company	CMP (INR)	Reco.
HUL	2,197	REDUCE
ITC	268	BUY
Nestle	16,724	REDUCE
Britannia	3,362	REDUCE
Dabur	495	ADD
GCPL	748	ADD
Marico	491	ADD
Colgate	1,515	ADD
Emami	417	REDUCE

Key takeaways from our D2C thematic

- **D2C is here to stay; omni-channel the way forward:** There are about 600 to 800 digital first companies in India. While many of these companies are only present on digital platforms and marketplaces, companies that have achieved a certain scale are endeavouring to expand into the offline channel. Speakers were of the consensus that online and offline channels will coexist. Selling on own websites is beneficial in terms of cost-effectiveness and easy access to data (that helps develop products), while an online-only presence limits the scope of growth. Some companies like The Good Glamm Group are looking to expand their offline presence and compete with traditional giants. While an online presence gives customers easy access to the products, offline helps products achieve sustainable growth. Further, offline channels like GT are still the most efficient and profitable channels, followed by MT. Customer acquisition cost has sharply risen in digital space, which is a risk for D2C brands, if repeat purchases are not high.
- **Near-term challenges to test D2C brands' business models:** Overall, the consumption environment in India is under pressure, given high inflation. Besides this, the D2C space is seeing additional pressure as venture funding is drying up with rising interest rates, which have led to selective funding. Given the D2C space is still nascent, companies need external funding to grow. The funding constraints may cause a slowdown in the near term. Further, selective funding may lead to consolidation within the D2C space and it could favour companies that (1) have a sharply-defined customer offering and (2) focus on profitability. While mortality of smaller brands is possible in the near term, with the evolving ecosystem, we expect the inception journey of new brands to become easier. This could lead to a long tail of brands adding up while only a few will be able to scale up beyond their niches.
- **Traditional companies adopting digital:** While D2C companies start to become sizable, many traditional companies are adopting the digital way. It is done through incumbents acquiring existing D2C brands to enter new niches that the brands were present in. Brands like Marico and ITC are very active in this space. Further, D2C brands are acquiring other D2C brands to work at a 'house of brands' strategy. Incumbents are also entering the digital space either by launching their own D2C brands or foraying into ecommerce with their existing brands. According to one of the speakers, the existing brands of traditional players are not digital friendly, so we doubt the scalability of this mode. Companies like ITC have been very active in launching new products. Almost all the listed companies are exerting efforts to improve their ecommerce mix.

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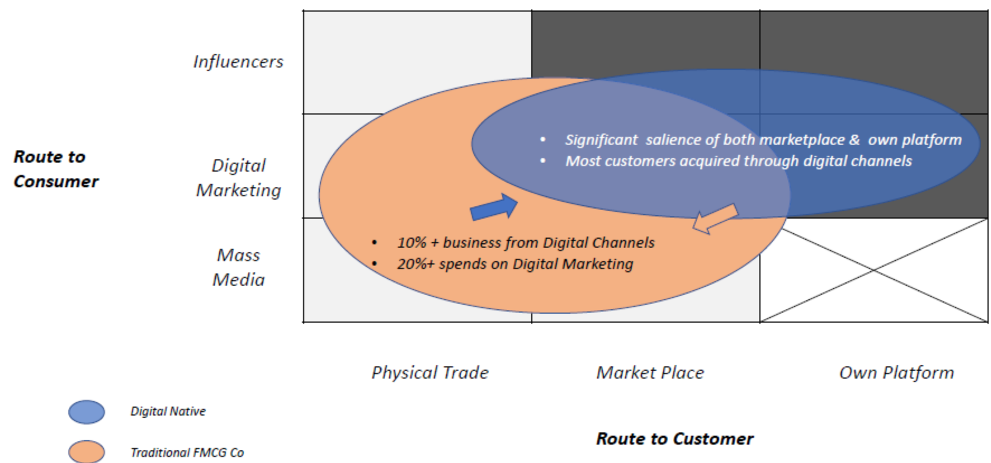
D2C is here to stay; omni-channel the way forward

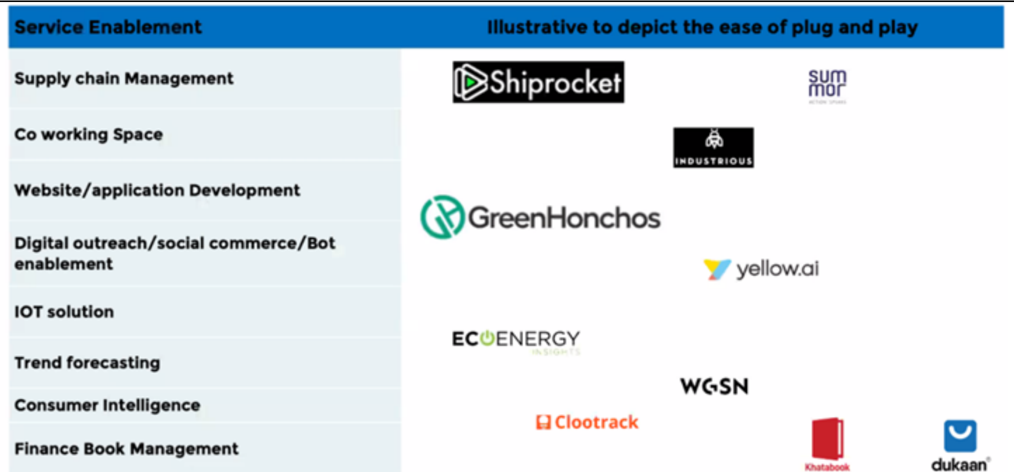
There are about 600 to 800 digital first companies in India. While many of these are only present on digital platforms and marketplaces, some have achieved a certain scale and are working towards expanding into the offline channel. The consensus view of the speakers at the conference was that online and offline channels will coexist. While selling on own websites will benefit in terms of costs and easy access to data to develop products, an online-only presence limits the scope of growth. Some companies like The Good Glamm Group are in the process of acquiring other companies to expand their offline presence and compete with traditional giants. Online presence gives customers easy access to the products, but offline helps products deliver sustainable growth. Further, offline channels like GT are the most efficient, followed by MT.

Direct to Consumer - Digital native vs traditional FMCG company



Source: Accenture

Plug and play ecosystem for D2C brands



Service Enablement	Illustrative to depict the ease of plug and play
Supply chain Management	Shiprocket, sum mor
Co working Space	Industrious
Website/application Development	GreenHonchos
Digital outreach/social commerce/Bot enablement	yellow.ai
IOT solution	ECOENERGY
Trend forecasting	WGSN
Consumer Intelligence	Clootrack
Finance Book Management	Khatabook, dukaan

Source: Technopak

All forms of retail will coexist and grow

Source: Technopak

Traditional companies going the digital way

While D2C companies are beginning to gain size, many traditional companies are adopting the digital route. Incumbents are acquiring existing D2C brands to enter new niches that the brands were present in. Brands like Marico and ITC are very active in this space. Further, D2C brands are acquiring other D2C brands to work at a 'house of brands' strategy. Incumbents have also started to enter the digital space either by launching their own D2C brands or entering ecommerce with existing brands. According to one of the speakers, the existing brands of traditional players are not digital friendly, so we he doubts their scalability. Companies like ITC have been extremely active in launching new products. Almost all the listed companies are working towards improving their ecommerce mix.

Digital Natives vs traditional FMCG companies

	Digital Native	Traditional FMCG
Market Segments	**Niche areas** • Underserved areas (e.g. Licious • Specific need space (e.g. Mamaearth	**Mainstream** • Daily needs/'Centre of Plate' • Multiple categories
Price Position	**High AOV/gross margin** • Bridge to luxury (e.g. WoW) • Discount to high value categories (e.g. Boat)	**Complete Pricing Pyramid** • Mass (Wheel) • Prestige (Rin) • Premium (Surf excel)
Advantages	**Digital First** • Digital Marketing • Data led	**Economies of Scale** • Strong Brand Power (SoV SoM • Massive reach at very low costs
Challenges	**Higher cost structures** • Customer acquisition cost • Supply chain scale	**Agility** • Defend/grow existing business portfolio • Different investor expectations
Operating Profit	Negative to 5%	15-25%
Growth Story	Internet penetration, Ecommerce channel, Pandemic	Demographics, Low Penetration, Rural Potential
Headwinds	Tightening liquidity	High Inflation

Source: Accenture

Near-term challenges to delay growth of D2C brands

The overall consumption environment in India is under pressure due to high inflation. Besides this, the D2C space is seeing additional pressure from drying up of venture funding, given rising interest rates, which have led to selective funding. Given D2C is still evolving, companies need funding to grow. Funding constraints could lead to a slowdown in the near term. Further, selective funding can lead to the emergence of more competent D2C companies having unique propositions. While mortality of smaller brands is possible in the near term, with the evolving ecosystem, we expect the inception journeys of new brands to become easier. It will ensure that the long tail of brands will continue to add up.

Market structure of D2C play in India

D2C led Companies ~ 600	Typical Annual Revenue Range
~5%	>$ 13 million (INR 100 Cr.)
~20%	$2.5- 12 million (INR 20-90 Cr.)
~75%	Less than $ 2.5 million (INR 20 Cr.)

Source: Technopak

D2C brands through different phases

	D3C Brands		
Metrics	**Zoom**	**Climber**	**Breakout**
Illustration	AUSUM, MOTHER SPARSH, SLEEPY OWL COFFEE	mamaearth, plum, SOULFULL, THE MAN COMPANY, WOW	boAt, Licious, NYKAA
Revenue (GMV) in INR Cr.	0 to 50	50 to 500	500+
Timeline (Years)	1 to 3	4 to 7	7 years+
Indicative Retail Sales Mix (%)	Own Channel[1]: 70 to 80% Other Channel[2]: 20%	Own Channel: 60% Ecommerce Marketplace: 40%	Own Channel: 40 to 50% Marketplace: 30% Offline: 30%
Data Consumer	~1,00,000	~1,000,000	~5,000,000
Product	Unique Category	Multiple Categories	Platform Play

Source: Secondary Research, Technopak Analysis
[1] Own channels include online platforms like exclusive website/own apps and offline channels including exclusive business outlets (EBOs)/shop-in-shop
[2] Other channel are online platforms including e -market places & offline channels include modern trade & general trade outlets

Source: Technopak

Our long-term thesis

1. We continue to believe that category leaders will not be able to sustain high market shares, impacted by competition from niche offline/D2C players. Category leaders in India hold a high market share (in some cases, >50%), in contrast to developed countries, where competition is more level playing.
2. Relevant product, pricing, and communication will continue to support D2C/new age brands for customer acquisition.
3. Alternative channels (MT+ ecomm) will continue to gain share, despite a significant increase in the last two years. India's share could be larger than that of developed countries, given the vast differences in consumer buying experiences between GT and alternative channels. However, despite this, GT will remain the dominant channel for FMCG even in 5-10 years from now.
4. Margin expansion for most companies will be muted, as many have already hit the ceiling. A large part of cost control has already been captured. Companies must prioritise growth over margins.
5. In the last five years, many consumer discretionary companies have expanded/gone public, providing a variety of options to investors in the consumption space. In comparison to history, changing growth assumptions will cause the valuation metric to shift relatively quickly.

D2C Brands market sizing and growth projection

	2021 (E)		2025 (P)	
Market Size	Overall	D2C Led	Overall	D2C Led
Food FMCG[1]	US$ 68.4 Bn (5,13,000 INR Cr.)	US$ 0.4 Bn (3,000 INR Cr.)	US$ 90 Bn (6,75,000 INR Cr.)	US$ 8 Bn (60,000 INR Cr.)
Non-Food-FMCG[2]	US$ 45.6 Bn (3,42,000 INR Cr.)	US$ 0.7 Bn (5,250 INR Cr.)	US$ 70 Bn (5,25,000 INR Cr.)	US$ 10 Bn (75,000 INR Cr.)
Home[3]	US$ 10 Bn (75,000 INR Cr.)	US$ 0.4 Bn (3,000 INR Cr.)	US$ 15 Bn (1,12,500 INR Cr.)	US$ 3 Bn (22,500 INR Cr.)
Electronics & Home Appliances[4]	US$ 23.5 Bn (1,76,250 INR Cr.)	US$ 0.4 Bn (3,000 INR Cr.)	US$ 33.5 Bn (2,51,250 INR Cr.)	US$ 1.1 Bn (8,250 INR Cr.)
Total	US$ 147.5 Bn (11,06,250 INR Cr.)	US$ 1.9 Bn (14,250 INR Cr.)	US$ 208.5 Bn (15,63,750 INR Cr.)	US$ 22.1 Bn (1,65,750 INR Cr.)

Source: Secondary Research, Technopak Analysis
(E) Estimated
(P) Projected
Note: 1 US$ = 75 INR
[1] Prominent categories are processed food, packaged staples, biscuits, beverages etc.
[2] Prominent categories are home care, beauty & personal care, mom & baby care etc.
[3] Prominent categories are furniture, houseware, kitchenware, home furnishings etc.

Source: Technopak

Conference participants and takeaways

D2C - BPC

Company	Speaker	Company/Expert Bio	Key Takeaways
Lotus Herbals	Mr. Nitin Passi, Founder MBA - University of Pittsburg Ex- Deloitte	It is a 28yr old BPC company which operates predominantly in the retail, salon and ecommerce channels. It also presence in the international markets. It operates under 6 brands, Lotus herbals, lotus makeup, lotus professional, Soultree, Lotus botanicals and Ikkai.	The D2C space in India can be successful if the retention rates are high with strong product and brand proposition. Further, an omni channel approach will lead a company to scale up. Rising cost of customer acquisition and drying up of easy availability of funds will cause concerns in the D2C space.
The Good Glamm Group	Darpan Sanghvi (Co-Founder) Founder Sanghvi Brands, ex- Celanese, Baazee.com.	The group is committed to inclusive beauty and cruelty-free, vegan, and environmentally friendly clean products. Its content-to-commerce approach is democratising access to beauty products and advice. It has a vast portfolio of brand in make-up, skin care, hair care, feminine hygiene, men's grooming and sexual wellness. Post the close of its recent acquisition; it will have an offline presence in over 1mn offline outlets.	The BPC category is seeing a good penetration driven by the digital platforms. Omni channel is key, to become a sizable company, one needs to leverage both the ecommerce and GT and MT. To increase its offline presence, the Good Glamm Group acquired a large company.
Ustraa	Rajat Tuli (Co-Founder) Ex- Mudra Communications	It offers a wide range of products in categories like beard care & accessories, hair care, fragrances along with face wash, body wash and soaps. The company is working toward becoming omni channel with presence across 9,000 offline outlets besides selling via own D2C store & marketplaces like Amazon, Flipkart, Myntra, Netmeds etc.	The men's grooming stage is at a nascent stage with the traditional players not innovating. While online is a strong platform, GT continues to have a strong hold hence expansion here is key. A company needs to expand into other channels to protect itself from channel concentration risk.
T.A.C - The Ayurveda Co.	Param Bhargava (Co-Founder) Founder Khadi Essentials, ex- VE Commercial Vehicles, Metso, Atlas Copco	It is an internet first brand offering multi-category organic ayurvedic beauty products started in 2020. Current portfolio comprises of various products from beauty and personal care, makeup, sexual wellness and baby care. Selling via own D2C channel and marketplaces like Amazon, Flipkart, Myntra, Nykaa, Pharmeasy, 1MG, Zepto as well as retails stores in Tier I cities.	The ayurveda space is large and has great potential for growth. Innovation in this space is important. Further brands need to resonate with the younger audience to tap the vast potential in this space. The international markets have good potential for strong growth.

Source: Company, HSIE Research

D2C - experts and enabler

Company	Speaker	Company/Expert Bio	Key Takeaways
Emiza	Ajay Rao (Founder &CEO) Ex - IBLCCI, Allcargo Global Logistics, CEO Writer Relocation, CEO WRITER SAFEGUARD	Emiza is a provider of e-commerce warehousing and fulfillment solutions. It has a large clientele including D2C players like mama earth, wow skin, and traditional companies like Marico and Cadbury. It provides services to the consumer oriented brands across five categories including BPC, food and nutrition, fashion and lifestyle, home and kitchen and appliances	The Indian D2C supply chain is in an evolving phase. Enablers have services in place which can be used as a plug and play model, post which a brand only needs to concentrate on manufacturing and branding.
Accenture	Rajat Agarwal Managing Director - Consumer Goods and Retail	Mr. Rajat Agarwal has more than 25 years of experience as a trusted C-suite advisor and providing strategic insights to help clients explore new market segments and stay ahead of the curve at Accenture. He has helped several "owner-run" Indian companies transform into globally competitive organizations as a Consumer Goods Industry Group Lead, Asia-Pacific in Accenture.	The incumbent FMCG companies will remain relevant due to large scale and efficient execution. They are picking up pace in the digital space to counter the digital first brands. Omni channel will remain prevalent, with traditional FMCG companies finding success in digital channels and some of the digital first companies reaching scale in offline.
Technopak Advisory	Ankur Bisen Senior Partner & Head Retail, Consumer products and Food,	Mr. Ankur Bisen has over 21 years of cross-functional experience in strategy, marketing and business development acquired in backdrop of working in India, Greater China and Europe. His special interest area is developing growth strategies and work with PE firms and investors for due diligence of companies in consumer sector.	The D2C space will see rapid growth coming from both scale up of digital first companies and traditional companies increasing presence online. While mortality rate will remain high for digital first companies (75% brands are <INR 200mn), the evolving ecosystem and focus on white space will continue to support digital first companies to counter mainstream companies.

D2C - Food & refreshment

Company	Speaker	Company/Expert Bio	Key Takeaways
Charcoal Eats	Krishnakant Thakur (Co-Founder) LionVentures, Co-founder woodBOX, ex-Espirito, Santo Securities, Quant capital, Edelweiss Capital,	Charcoal Eats is India's leading cloud kitchen that delivers Indian flavours to its customers across the country at affordable prices. It offers both vegetarian and non-vegetarian varieties of biryani. The company has also entered the burger space by launching its B Burger brand. It hopes to take on 55% of the delivery market by having presence in 4 categories like biryani, burger, Asian and pizza	55% of the delivery market being concentrated by biryani, burger, Asian and pizza. The company's focus is to concentrate on a single geography while expanding the product offerings. Dark kitchen has been a boom due to its ability to operate on low cost.
True Elements	Puru Gupta (Co-Founder) Kartnowa Technologies, ex-Co-Founder Healthy World, Procter & Gamble	True Elements is a brand by HW Wellness. It is focused on selling breakfast oats, muesli, flakes, dry fruits and snacks, and other healthy items. The products are natural and made of whole grains. India's first clean label and 100% wholegrain certified food brand offering healthy breakfast and snacks. The brand is now certified 'Clean Label' by the Clean Label Project, US. Selling via own D2C channels and marketplaces like Amazon, Flipkart, Bigbasket, Nykaa as well as offline via General Trade stores across pan India.	The growing population is looking at healthy food options with strong taste proposition. The breakfast market is vast and offering high quality and healthy products. Here companies are concentrated to a single category like western or Indian breakfast rather than providing the entire isle of breakfast.
Eggoz Nutrition	Abhishek Negi (Co-Founder) Ex-Co-Founder Roder, Vodafone.	Sleepy Owl is a homegrown Indian D2C coffee brand. The brand had entered the coffee space with its innovative cold brew offering in India and has, since then, expanded into selling a large range of coffees like instant, whole bean, ready-to-drink, along with merchandise. It sells via direct-to-consumer channels, e-commerce platforms like Amazon, Flipkart and Bigbasket.	The Indian egg supply chain is very unorganised leading to less nutritious eggs. Given eggs are an important source of protein in the Indian diet, a robust supply chain, is needed. While the costs of the branded eggs by Eggoz are expensive, the value proposition is much higher.
Good Dot	Abhishek Sinha (Co-Founder) Ex-Indian Revenue Service, Ministry of Defence of India	Good Dot is India's leading plant-based meat brand. It is taking plant-based foods to a new level by manufacturing and selling plant-based meat products using pure vegetarian ingredients and producing all kinds of vegetarian alternatives for mutton, chicken, fish, egg, and other meats. Sells via direct-to-consumer channels, e-commerce platforms as well as over 7,500+ offline stores. Recently launched its products in Canada, Dubai, Nepal, South Africa and Singapore.	The plant based meat industry has great potential to grow given its protein proposition. The industry has potential across both the domestic and international markets. While there are challenges of limited investments in place, government interventions can help out the industry. Mass adoption of plant based meat can be led by large QSR chains scaling up these products.
Sleepy Owl	Ajai Thandi, (Co-Founder) Ex-JPM	Eggoz Nutrition is first organised brand of UV sanitized eggs delivering fresh from farms within 24 hrs. Largest Egg supplier in currently North India with Omi-channel presence. Selling online via own D2C channels and marketplaces like Amazon, Flipkart, Bigbasket, Blinkit as well as offline via General Trade and Modern Trade.	The Indian coffee industry is dominated by instant coffee. Further, the tea to coffee drinker ratio in the country is 10:1. The recent rise of coffee companies will help educate the coffee drinkers about the whole bean or filter coffee space. This space will continue to deliver a good growth led by customer awareness.

Lotus Herbals

Company brief: Lotus Herbals is a 28-year old beauty and personal care company which operates predominantly in the retail, salon and ecommerce channels. It also has its own subsidiary which focused on the international business. It has six brands with Lotus herbals being the largest brand. Other brands include lotus makeup, lotus professional, Soultree (ayurveda brand), Lotus botanicals (digital only) and Ikkai.

FOUNDED: 1993
LOCATION: Delhi

Speaker
Nitin Passi, CEO and Co-founder
MBA - University of Pittsburg
Experience: Deloitte

www.lotusherbals.com

Lotus Herbals Brands:
Lotus Herbals
Lotus Makeup
Lotus Professional
Soultree
Lotus Botanicals
Ikkai

Key discussion points:

- Lotus is a vertically integrated BPC company across the value chain, from product conceptualisation to R&D, commercials, manufacturing, marketing and omni channel sales.
- In the retail business, the company directly covers 100,000 to 120,000 outlets with presence across metros, tier 2 and 3 cities.
- The company is focused on innovation with a team of 7 R&D professionals. In the past, the company has introduced products like gel based cream. It was also the first one to enter the naturals space about 20 years back.
- Due to Covid, the company saw a surge in online sales. Online contributes to 28-30% of the company's current top-line which had reached 60% during Covid. 80% of online sales is generated from marketplaces while own web store generates 20%.
- Tier 2 and 3 cities are underpenetrated for BPC. These regions are growing very fast due to distribution expansion
- For Lotus, HUL is the closest competitor. In the premium skin whitening segment, the company is the 3rd largest player, with L'Oreal and HUL being the top two.
- It has core investment in D2C brands with deep engagement with these brands
- Globally, D2C brands don't sell on marketplaces, while in India, very few players are able to sell on own website.
- D2C was driven by (1) Covid which enabled more digital adoption and higher disposable income and (2) liquidity or easy money which gave rise to risk capital.
- Going forward, the Indian D2C space will see challenges like availability of capital, inflation, etc. however, this will be resolved if the companies adopt omni channel presence and have a strong product offering.
- Every listed D2C company in the US is seeing shrinkage in revenue and margin.
- Remain cautiously optimistic on demand given food price inflation could impact more on a certain section of the society, present in the tier 2 and 3 markets.
- Metros are very important for most of the BPC categories; however there is focus on tier 2 and 3 cities.
- Of the top 10 brands with share of voice, 8 are traditional brands on the digital space.
- House of brand should be adopted and executed as a well-thought strategy and not as additional revenue streams when one brand is not doing well.
- The industry will see fragmentation, with companies providing specific solutions to specific problems which will lead to emergence of niche plays.
- The cost of acquiring customers is the largest cost and this is increasing. Cost of digital marketing in the US is $18 for reaching 1,000 people. The cost of such marketing in India was $2, this has moved up to $6.
- D2C brands will be able to cross INR 1bn and improve unit economics if their retention rates are strong. A pull in brand and product uniqueness is key for the success.
- The categories with high loyalty are difficult to penetrate. This can be seen in the case of skin, followed by hair care, fragrances and makeup.

Key takeaways:

The D2C space in India can be successful if the retention rates are high with strong product and brand proposition. Further, an omni channel approach will lead a company to scale up. Rising costs of customer acquisition and paucity of easily available funds will cause concerns in the D2C space.

The Good Glamm Group

Company brief: Sanghvi Beauty and Technologies, i.e. the Good Glamm Group is committed to inclusive beauty and cruelty-free, vegan, and environmentally friendly clean products. Its content-to-commerce approach is democratising access to beauty products and advice. It has a vast portfolio of brand in make-up, skin care, hair care, feminine hygiene, men's grooming and sexual wellness. Post the close of its recent acquisition, it will have an offline presence in 1mn offline outlets.

Key discussion points:

- The Good Glamm Group has 200mn monthly active users online, 50mn social media follows and 4.5mn monthly impressions organically.
- On back of digital reach, the company is able to get consumers to discover its brands and then transact and build the next generation of D2C brands.
- It is the largest D2C company in India with more than 1mn orders per month via own websites with strong offline and marketplace business.
- The company owns the largest female and men content in India. It has its own creator platform with 1.5mn influencer. It inserts its own brands and product on these platforms for customers discover.
- Post the close of its announced acquisition, the group will have 200mn monthly online active users and offline presence in 1mn outlets.
- The company aims to be at Nykaa's revenue level after the closing of acquisition in Sept. Its target is to reach GMV of $1bn by Oct 2023 post which the company will be cash flow positive and look at getting the company into the public domain.
- In Sept 2020, the company acquired its first content brand Popxo, which helped the company leverage content to commerce. It scaled from acquiring 30,000 customers per month to 500,000 users per month with lowest cost of customer acquisition in the industry.
- As the company's scale grows, the company will be able to cover its fixed cost and turn EBITDA positive.
- In makeup, Myglamm is the third largest brand following Lakmé and Maybelline.
- In terms of AOVs, the company has low AOVs in its first order at INR 350, however repeat AOVs are higher at INR 1,000. It has 30% orders from repeat customers.
- The company has multiple brands like Myglamm, St. Botanica, Organic Harvest, Scinora Hygiene and Moms Co. Once these brands are scaled up, share of revenue from makeup, skin and hair will be at 20% each.
- The company operates in 75% GM, with contribution margin at 40-45% which is expected to reach 55%. The company should be EBITDA breakeven and Cashflow positive in the next year Oct 23.
- It expects 25-30% EBITDA margin on a stable state in the next few years.
- The BPC category in India has leapfrogged shift on how a customer discovers BPC products. In US, BPC was discovered via retail, this never happened in India. In India BPC is being discovered on social media platforms.
- There are marketplaces which predominantly sells 3rd party products while legacy brands like L'Oreal have 85% of sales offline.
- Shipping costs ranges from INR 30 to 50 depending upon the AOV and the units shipped.
- It is challenging for brands to make profits with AOVs lower than INR 250-300.
- Ability to scale without burning will determine how successful a brand can grow in the D2C space.

Key takeaways

The BPC category is seeing a good penetration, led by digital platforms. Omni-channel is key for a company to become sizable. A company will need to leverage both ecommerce and GT and MT. To increase its offline presence, the Good Glamm Group acquired a large company.

FOUNDED: 2015
LOCATION: Mumbai

Speaker
Darpan Narendra Sanghvi, CEO and Founder
B.E. (MIT), MBA (ESADE Business School)

https://goodglamm.com/

Sanghvi Beauty and Technologies Brands:

MYGLAMM
Organic Harvest
The moms co
Baby chakra
St.Botanica
SIRONA
POPXO
Scoop Whoop

Happily Unmarried

Company brief: Happily Unmarried offers a wide range of products in categories like beard care & accessories, hair care, fragrances along with face wash, body wash and soaps. The company is working toward becoming omni channel with presence across 9,000 offline outlets besides selling via own D2C store & marketplaces like Amazon, Flipkart, Myntra, Netmeds etc.

FOUNDED: 2003
LOCATION: Delhi

Speaker
Rajat Tuli, Co-founder
Ex- Mudra Communications
MICA 1998

https://www.ustraa.com/

Happily Unmarried Brands:
Ustraa

Key discussion points:

- The company entered the men's grooming space as the well established brands were not innovating in this space.
- It sells via own website and aggregators. In offline, the company is present in 9,000 outlets for GT and standalone MT as well. The company is expanding offline presence.
- Bulk of the company's sales (70-72%) is online and it expects the mix to shift to 65:35 in the next couple of years.
- In GT, the company is setting own sales team network and own distributor channel hence it is consuming more time. This path is more sustainable. It has 120 distributors pan India.
- The company has set up a network of beauty advisors to sell its products. Plan to have 500-600 beauty advisors across stores to expand.
- Online growth is coming from online platforms like Flipkart, Amazon, Nykaa and Myntra. Own website has less share of overall sales, however the data collected here is used to develop products. It has about 35% of repeat customers on its own website.
- The company used data to launch products like the hair cream vitaliser
- Offline will not become bigger than online, however sales in this channel will be more consistent, unlike online whose space depends on discounting ecosystem.
- Its focus is on maintaining its gross margin and sanctity across all channels.
- Gross margin for the company is in excess of 70% with net ARR at INR 1.2bn. It targets to achieve INR 1.5-1.7bn of ARR by the end of the year.
- The company has large sales from young settlements who are experimenting on purchases.
- During first lockdown, there were a lot of sales via supermarket, hence the company is working towards omni channel. It is selling on other channels to go protect itself from channel concentration risk.
- When the company had launched there were no other players so was able to take share. A&P costs have now gone up so it is challenging to enter into new segments.
- In the offline channel there is at store level marketing which makes more than 25% of the costs.
- The GT channel continues to have a strong hold. MT however is seeing some slowdown with people adopting online platforms.
- Of the overall personal care space, men's personal care only contributes to 11% and has potential to grow. The soap space is an INR 180bn industry of which men's share is only INR 4bn.
- With the younger male population being more aware about the personal care space, the company sees growth potential for the industry.
- Gillette price for shaving products in India is the lowest in the world. So here it is tough for other companies to be present.
- People are ready to pay more if they the value proposition is high as men tend to spend more on themselves.

Key takeaways

The men's grooming stage is at a nascent stage with the traditional players not innovating. While online is a strong platform, GT continues to have a strong hold hence expansion here is key. A company needs to expand into other channels to protect itself from channel concentration risk.

T.A.C - The Ayurveda Co.

Company brief: T.A.C - The Ayurveda Co. is internet first brand offering multi-category organic ayurvedic beauty products started in 2020. Current portfolio comprises of various products from beauty and personal care, makeup, sexual wellness and baby care. Selling via own D2C channel and marketplaces like Amazon, Flipkart, Myntra, Nykaa, Pharmeasy, 1MG, Zepto as well as retails stores in Tier I cities.

Key discussion points:

- The company wanted to build a larger ayurveda umbrella brand and an ecosystem for promoting ayurveda to the entire country and then to the world
- TAC is a holistic ayurveda beauty and wellness brand. Within the ayurveda space, the company is bringing a brand covering the entire lifecycle of a person from birth to death.
- The company is building a portfolio spread over beauty – face care, skin care, hair care, body care and bath and body. Most of the products are concerned oriented with high quality products at the right price point for the larger India. The company is typically operating in the INR 249-599 MRP price point.
- The company recently has got into the baby care category. Further, it will be launching the natural and ayurvedic make up category with nourishment benefits.
- The company is developing IPs in the sexual wellness categories with very high quality of Shilajit in resin and capsule form.
- The company is at a 30mn revenue run rate. It has been changing certain brand positioning especially in the Khadi brand. Until recently the company was 100% online for both brands.
- The company is re-launching its Khadi brand at affordable pricing.
- The company operates at 70-72% gross margin.
- Target is to take TAC to INR 1bn of revenue, to do this, the company is burning cash to acquire higher customers at a fast phase.
- EBOs for the brands are being introduced.
- It has a mother warehouse in Haryana used towards fulfillment and replenishment.
- The company is working towards building a new age Patanjali.
- Post its latest round of funding, the company will ramp up development of its app which would drive content and consultation.
- The products are priced at a slight premium to Himalayas and Patanjali.
- The company plans to enter the prescription based products post its series A funding.
- All products in the beauty side are in accordance to global standards and meeting all forms of global requirement.
- The company is getting large certifications like made safe, which are top of the line certifications given to nontoxic products.
- The product developed by the company has potential to enter the US and UK markets. In the next 6-8 months the company will be entering US via marketplaces and later enter retail chains like Walmart and Target.
- 90% of manufacturing is outsourced by the company. It will look at backward integration capabilities going forward.
- The company does crowd sourcing for launching new products which enables it to get inputs before the development and full launch

Key takeaways

The ayurveda space is large and has great potential for growth. Innovation in this space is important. Further brands need to resonate with the younger audience to tap the vast potential in this space. The international markets have good potential for strong growth.

FOUNDED: 2020
LOCATION: Gurugram

Speaker
Param Bhargava, Co-founder
BE, Rajasthan Technical University 2009
Founder Khadi Essentials, 2019
Ex- VE Commercial Vehicles, Metso, Atlas Copco

https://theayurvedaco.com/

T.A.C - The Ayurveda Co. Brands:
T.A.C - The Ayurveda Co.
Khadi Essentials

Charcoal Eats Foodtech

Company brief: Charcoal Eats is India's leading cloud kitchen that delivers Indian flavours to its customers across the country at affordable prices. It offers both vegetarian and non-vegetarian varieties of biryani. The company has also entered the burger space by launching its B Burger brand. It hopes to take on 55% of the delivery market by having presence in 4 categories like biryani, burger, Asian and pizza.

FOUNDED: 2015
LOCATION: Mumbai

Speaker
Krishnakant Thakur, Co-founder
LionVentures, Co-founder woodBOX, ex-Espirito, Santo Securities, Quant capital, Edelweiss Capital,
SBI. SGSITS BE 2002,
IIM B 2004

https://www.charcoaleats.com/

Charcoal Eats Brands:
Charcoal Eats
B Burger

Key discussion points:

- The company works on a completely back ended model where product is shipped from a centralised kitchen and the demand planning is done at the outlet level. The food items just need to be heated and sent.
- Pre-covid, the company scaled to 70 outlets but due to covid, it had to scale back and is limited itself to Mumbai.
- Going forward the company's strategy is to create multiple brands from same kitchen. Idea is to be multi-brand in a particular geography rather than multiple geographies with one brand.
- The company has a run rate of INR 500mn with two brands, Charcoal Eats and B Burger (gourmet burger).
- Goal is to reach INR 1bn ARR in the next 12 months
- It has seen some degree of margin erosion. Food cost has gone up from 33% to 36%. With monsoon setting in, chicken prices should settle in which is a large portion of the cost.
- For charcoal eats asset turns is 8-10x. Breakeven point is roughly around INR 450,000 per store per month. Overall capex is INR 0.8mn.
- Dark kitchen has been a boom especially for a company like Charcoal Eats. Opex per store for the company is only 100,000. Average rental is INR 28,000 and need 3 employees so around 45,000 is salary, INR 15,000-20,000 towards electricity and other miscellaneous.
- If the company works at a 30% margin at a store level, the breakeven works in at INR 300,000.
- The company is at a run rate of INR 500mn of which INR 400mn will be from charcoal eats. It expects this to plateau at INR 500-600mn and then grow with the industry. It has potential to get INR 300-400mn of ARRs from each of its other products burger, pizza and Asian. The target is to reach 1 -1.2bn of ARR focusing only on Mumbai market.
- B Burger as a category will be looking at food courts and highways while biryani as a category will be looking at delivery, food courts and corporate kiosks.
- The idea for the company is to increase the pie going after high AOV categories like biryani, burger, pizza and Asian which contributes to 55% of the delivery market.
- For the company, house of brand is not aggregating the food brands rather back ending it. It will look at 4 categories which is 55% of the market.
- Charcoal Eats gets about 60% of repeat customers while B Burger gets 40% of repeats.
- Discounts work out in the range of 14-15% in the case of Charcoal Eats while in the case of B Burger which is a premium proposition, discounts is in the 10-11% range.
- A player like JUBI with its experience will be able to deliver on consistency aspect.
- Online delivery is a $4bn market; 13-15% would be Biryani. The dine-in portfolio is much larger. Biryani delivery is estimated to be 1/10th of the market.
- On Zomato, biryani is 10-12% of orders, burgers form 8-10%, while Asian is higher and pizzas are at 15%. Equal contribution should come from each product.

Key takeaways:

55% of the delivery market comprises biryani, burger, Asian food, and pizza. The company's focus is to concentrate on a single geography while expanding its product offerings. The Dark Kitchen has been a boom due to its ability to operate on low cost.

True Elements

Company brief: True Elements is a brand by HW Wellness. It is focused on selling breakfast oats, muesli, flakes, dry fruits and snacks, and other healthy items. The products are natural and made of whole grains. India's first clean label and 100% wholegrain certified food brand offering healthy breakfast and snacks. The brand is now certified 'Clean Label' by the Clean Label Project, US. Selling via own D2C channels and marketplaces like Amazon, Flipkart, Bigbasket, Nykaa as well as offline via General Trade stores across PAN India.

FOUNDED: 2015
LOCATION: Pune, Maharashtra

Speaker
Puru Gupta, CEO and Co-founder
B.E., MBA (FMS)
Experience: Cognizant, ITC, CII, P&G, Healthy World and Kartnowa Technologies

https://www.true-elements.com/

HW Wellness Brands:
True Elements

Key discussion points:

- The company had clocked INR 540mn net revenue in FY22, INR 340mn in FY21. The company was almost EBITDA positive.
- It is a digital native brand pretty much conscious on cost to serve and on capital efficiency. It has raised INR 100mn of equity and INR 80mn of debt in the past.
- 75% of business comes from online. As a brand, they are very conscious not to enter MT, until there is a demand pull. The company is there in 12,000 stores in offline, especially GT. It will not be margin dilutive and enter MT.
- The company wants to get in the regular breakfast category rather than the gourmet category. It competes with brands like Kellogg's. Its products are priced at a low premium of 5 – 10% to incumbents to avoid customer downgrades.
- It sells breakfast and snacks which are a 50:50 mix.
- The right to win for the company is from taste as the passive heath seekers want to eat healthy but not compromise on taste.
- Repeat is one of the highest in the category of close to 60-65% so when they acquire customers, leakage will be low helping the company grow faster.
- The company has 100% in-house management to maintain the quality.
- True Elements targets to take on the entire isle of breakfast with not only products like oats and granolas but also offering dosa mixes, pongal etc.
- It is able to manage its inventory well due to its own manufacturing where the company manufactures finished goods based on demand. Given the high SKUs, managing on third party model will be difficult.
- The company has contracted farmers for the next 12 years of production which ensures raw material availability at right pricing and superior quality.
- As a brand, the company will continue driving the offline channel and drive its online strength.
- Getting new customer on own website is expensive, so marketplaces are ideal to acquire customers.
- In an inflationary environment, pricing parity to peers is quintessential for a brand to grow.
- In the last three years, the breakfast category has grown at 27-28% CAGR. In the healthy snacking space, the growth is 22-23% CAGR.
- The market size the company operates in is worth $8-10bn
- There is 10-15% difference in the margins in GT vs. MT. GT margin ranges from 20 to 30% while MT ranges from 25-35 or even 40% at times.
- There is a broad based growth in the foods categories. The company can enter into categories where there is a doubt by the consumers on the sugar content and chemicals. As long as a category is not a fad, there is potential for growth.
- The company sees big opportunity from serving offices and hotels. Currently it is 3% of total revenue.

Key takeaways

The growing population is looking at healthy food options with a strong 'taste' proposition. The breakfast market is vast and offering high quality and healthy products. Here companies are concentrated to a single category like western or Indian breakfast rather than providing the entire isle of breakfast.

Sleepy Owl

Company brief: Sleepy Owl is a homegrown Indian D2C coffee brand. The brand had entered the coffee space with its innovative cold brew offering in India and has, since then, expanded into selling a large range of coffees like instant, whole bean, ready-to-drink, along with merchandise. It sells via direct-to-consumer channels, e-commerce platforms like Amazon, Flipkart and Bigbasket.

FOUNDED: 2016
LOCATION: New Delhi, Delhi

Speaker
Ajai Singh Thandi, Co-founder
Bachelors – Economics (USE & LSE)
Experience: J.P Morgan

https://sleepyowl.co/

Sleepy Owl Brands:
Sleepy Owl

Key discussion points:

- The company's idea was to make coffee consumption convenient for consumers. To do so, it innovated and came up with different form factors like cold brew or a dip (hot brew bag) format. These developments helped the company achieve scale.
- The company was able to garner word of mouth marketing which was very essential as capital was not involved. This helped the company scale the product distribution.
- Besides getting into the large scale GT or MT, the company went online. This is where the younger population would shop and adopt new trends.
- D2C along with differentiated products were helpful for the company. It was able to generate sales and brand building without much of ATL/BTL marketing spends.
- Platforms like Shoppify and Instagram enabled the success of the company.
- Mission of the company is to make India a country of coffee and with it for Sleepy Owl leading the industry.
- The company has a revenue run rate of INR 35mn per month.
- In the last one year the input costs have gone this led to GM compression to 48-49% from 60% earlier.
- Majority of the company's spends have gone towards performance marketing.
- The company's products are already priced at a premium, India is a price sensitive market. Initially the company had not passed on the commodity pressure, now however some pressure is being passed on.
- 70% of sales are online, however offline should increase. Brand building is relatively easier in the online space but when the brand reaches a stage, the offline expansion is better.
- Per cup pricing for brewed cup is INR 22-23, and INR 10 for instant.
- Right to win is highly differentiated product on both, flavour and form factor.
- For Sleepy owl, objective is to convert non coffee drinker to coffee consumer. Ratio of coffee to tea drinkers is 1:10.
- AOV for the company is more than INR 1,000 and repeat customers are 55-60%
- India consumes no coffee despite being the 6th largest producer (beans) in the world. No near brand there to educate the consumer.
- India is 1% of the global $100bn coffee market. The Indian FMCG coffee market size is ~ $1.2-1.5bn size of which instant is 80%.
- Traditional tea consuming population is shifting to coffee as seen in Japan and UK.
- Traditional companies have not been innovating. Nestle product is towards accessibility rather than innovation.
- Starbucks is a global brand, have a high resonance with the millennial. This space will be challenged by Blue Tokai and other brands who sell highly differentiated products.
- It expects the coffee industry to grow at 8 to 12% CAGR till FY25. Drivers are small base, evolution of consumer space, similar to wine.
- ITC's Dalgona or Sunbeat coffee, the offerings are very good

Key takeaways

The Indian coffee industry is dominated by instant coffee. Further, the tea to coffee drinker ratio in the country is 10:1. The recent rise of coffee companies will help educate the coffee drinkers about the whole bean or filter coffee space. This space will continue to deliver a good growth led by customer awareness.

Good Dot

Company brief: Good Dot is India's leading plant-based meat brand. It is taking plant-based foods to a new level by manufacturing and selling plant-based meat products using pure vegetarian ingredients and producing all kinds of vegetarian alternatives for mutton, chicken, fish, egg, and other meats. Sells via direct-to-consumer channels, e-commerce platforms as well as over 7,500+ offline stores. Recently launched its products in Canada, Dubai, Nepal, South Africa and Singapore.

FOUNDED: 2016
LOCATION: Udaipur

Speaker
Abhishek Sinha, Co-founder
BE NALSAR Pune University
Experience: Ex-Indian Revenue Service, Ministry of Defence of India

https://gooddot.in/

Good Dot Brands:
Good Dot

Key discussion points:

- It operates in gross margin in the 40-50% range depending upon the products.
- Most ingredients used are not novel ingredient. 80-85% of raw materials are procured from India except pea protein which is imported.
- Its products have done well in states with high meat eating population.
- It has an RCM distribution model for tier 2 tier 3 cities with presence across 10,000 stores. The company sent chefs and trainers to these retailers who then educated the consumers.
- The company is focusing on developing strong products. It holds R&D as a focus area with 27-28 of its staff in the R&D department.
- GoodDot sees huge potential in HORECA.
- Plant based meat contains protein which poses a good potential for India. Further the potential for B2B and exports is high.
- Globally, investments have been made in the plant based meat industries by large investors and enterprises including FMCG and large meat companies. This is a disruption of $1.3tn annual industry.
- For exports, India has great agricultural resources and skilled manpower to go down the line of other countries to be one of the large plant based meat exporters.
- India is the largest producer, consumer and exporter of pulses in the world. Despite consuming large quantity of pulses, India is starved for proteins as the density of protein in pulses is low.
- Raw materials for plant based meat today are soy, wheat proteins etc., however, millets has a large potential here.
- The challenge in India is to get protein isolation plant which requires INR 1.5 to 2bn of investments a space where the govt can invest.
- To be successful, the Indian plant based meat can't adopt what was successful in the west. This space will be successful with products that meet the need of India. These needs include taste, being at a right price, benefits of economies of scale and large scale adoption.
- The Indian meat sector is $40bn and it is expected to touch $60bn by 2024. Plant based meat company has opportunity to get some of the market.
- Last year GoodDot did INR 340 to 350mn of revenue, this year targeting INR 1bn. Last year GMV was 1bn.
- Key challenges in plant based meat are R&D, category and brand awareness and capital infusion for expansion.
- ITC has adopted the wrong strategy where they are targeting subset of a small segment at high pricing.

Key Takeaways

The plant based meat industry has great potential to grow given its protein proposition. The industry has potential across both the domestic and international markets. While there are challenges of limited investments in place, government interventions can help out the industry. Mass adoption of plant based meat can be led by large QSR chains scaling up these products.

Eggoz Nutrition

Company brief: Eggoz Nutrition is first organised brand of UV sanitized eggs delivering fresh from farms within 24 hrs. Largest Egg supplier in currently North India with Omi-channel presence. Selling online via own D2C channels and marketplaces like Amazon, Flipkart, Bigbasket, Blinkit as well as offline via General Trade and Modern Trade.

FOUNDED: 2017
LOCATION: Bihar

Speaker
Abhishek Negi, Co-founder
IIT Kharagpur
Experience: Ex-Co-Founder Roder, Vodafone

eggoz.in

Eggoz Nutrition Brands:
Eggoz

Key discussion points:

- Brand was launched in Oct 2020, earning INR 45mn of monthly revenue.
- The company is available in GT, MT and online channels across 3 metro cities and 9 non metro cities. It is the market leader in many of the accounts it serves.
- The company has developed a backend integrated business model where it not only sources the products but also supplies ingredients to the farmers and undergoes real time monitoring of the birds.
- Farmers are provided with daily pickups and are paid better than the normal rates. A farmer in Eggoz's network would earn more than 80% vs. earlier.
- In the longer run, the company wants to solve the nutrition problem in India and eggs are the way.
- In the next five years it plans to take its offerings pan India.
- The company is selling eggs in the mass premium section where the prices start at INR 10 and goes up to INR 18 depending on the variant.
- Compared to other packaged brands by local farmer/online brand in the mass premium side, the company is not the most expensive or cheapest.
- The company is operating on a GM of 45%, in non metro areas and it has broken even on EBITDA on a city level.
- Delivery to end consumer is done by trade with 60% of business by GT, 30% from MT and rest form D2C platforms and online channels. The company has a subscription model; however it is still in nascent stages.
- Third party independent surveys are been done on every monthly basis where Eggoz eggs and unbranded eggs are tested.
- Eggoz is a young brand so it is only targeting BTL activities.
- In B2B, the company is a supplier to Chaayos, Oberoi, Theobroma etc. These brands are paying a premium as end product is more valuable.
- Overall wastage ratio is less than 2%, however during summer, the shelf life is lower so wastages are higher. During winters, wastages are at 0.2%.
- It has developed supply chain practices, to minimise wastages. It is working on egg based packaged products to solve the issue of low margin and wastage.
- It has been able to grow at a consistent pace of 25% month on month.
- Eggs are the most efficient source of protein, however 99.5% of the eggs that are available on retail are 7 to 10 days old. Which loses 50% of its nutrition value.
- In the farmer value chain side, India is the third largest producer of eggs in the world
- To start a poultry plant, one needs at least INR 10mn, with minimum viable farms size of 12,000 layer farming.
- The prices that the farmers get are linked to the commodity prices.
- The egg consuming industry is envisaged to become a $30bn market by 2030 from current $12bn market.
- 65% of the supply was south while 2/3rd of demand is in north.
- Seasonality of demand depends on the region and festivals. In summers, there is a perception to eat fewer eggs. Peak demand season is from late October to Holi.

Key takeaways

The Indian egg supply chain is highly unorganised leading to less nutritious eggs. Given eggs are an important source of protein in the Indian diet, a robust supply chain, is needed. While the costs of the branded eggs by Eggoz are expensive, the value proposition is much higher.

Emiza Supply Chain Services

Company brief: Emiza is a provider of e-commerce warehousing and fulfillment solutions. It has a large clientele including D2C players like mama earth, wow skin, St Botanica and traditional companies like Marico and Cadbury. It provides services to the consumer oriented brands across five categories including BPC, food and nutrition, fashion and lifestyle, home and kitchen and appliances.

FOUNDED: 2015
LOCATION: Mumbai, Maharashtra

Speaker
Ajay Rao, Co-founder & CEO
William & Mary – Raymond A. Mason School of Business
Experience: Ex - IBLCCI, Allcargo, CEO - Writer Relocation, CEO - Writer Safeguard

https://emizainc.com/

Key discussion points:

- The company predominantly work across 5 categories i.e. BPC, food and nutrition, fashion and lifestyle, home and kitchen and appliances.
- It helps digital native brands to reach their end customers by giving them a plug and play warehousing and fulfillment capabilities.
- It also works with legacy brands who are now investing in expanding their digital footprint.
- With a large scale, it is able to offer favorable per unit costs to the D2C players.
- Revenue realisation from B2B is lower but quantity is high while for D2C revenue realisation is much higher with similar quantity.
- The company is present across the entire backend from inventory (warehousing), tech platform and last mile. Last mile is carried out by courier partners.
- Having an aggregation model, it is able to use its scale to gain better bargaining power with the last mile partners.
- The company has 17 warehouses across 8 cities and it will be adding warehouses in 3 more cities. The average warehouse size is 50,000 to 60,000 sq ft for larger cities while smaller cities like Chennai has 30,000 sq ft sized warehouse.
- To breakeven, the company will need to operate at 55-60% utilisation.
- Core competency for the company is around warehousing and last mile contracting.
- It is looking at certain categories outside the consumer segment to expand, as long as it fits into its core competencies.
- Marketplace makes 70% of the ecommerce industry while D2C brands are balance.
- Amazon or flipkart have invested heavily in the supply chain with their own fulfillment services handling 70% of its volume with remaining 30% with 3PKs.
- The quick commerce category (Blinkit, Zepto, Bigbasket) is seeing expansion. Here the companies are buying inventory and storing it close to the consumer. The inventory purchased is limited to popular items.
- Popular items are also stored close to the customers to enable same or next day while slow moving products will be delivered in two to three days.
- A D2C brands spends on an average of INR 20-22 on warehousing, storage and other fulfillment, INR 8-10 on packaging and upward of INR 70-75 on shipping.
- With companies moving towards regional inventory the shipping costs are lower. Within a city, the shipping cost is INR 30-35 while other can be as high as INR 60.
- Shipping is 4-5x of warehousing so it is much cheaper for a brand to replicate inventory and drive down costs.
- AOVs are category specific with average BPC AOVs is around INR 400 – 500, for food - INR 300-350, fashion - INR 800-850 and electronics - INR 1,500-2,000.
- COD is still 55%-60% of the industry. An additional markup is changed here.
- D2C brands need to stock inventory across multiple warehouses of Amazon, Flipkart, Myntra, etc. each. To track the large inventory is an unsolved issue.
- There has been an impact on freight costs due to the global macros.
- The D2C volumes have been growing 8-10% month on month, with tier 2 and tier 3 cities leading the growth.

Key takeaways:

The Indian D2C supply chain is in an evolving phase. Enablers have services in place which can be used as a plug and play model, post which a brand only needs to concentrate on manufacturing and branding.

Expert – Accenture

Company brief: Mr. Rajat Agarwal has more than 25 years of experience as a trusted C-suite advisor and providing strategic insights to help clients explore new market segments and stay ahead of the curve at Accenture. He has helped several "owner-run" Indian companies transform into globally competitive organizations as a Consumer Goods Industry Group Lead, Asia-Pacific in Accenture.

Speaker
Rajat Agarwal,
MD - Consumer Goods and Retail

Key discussion points:

- Historically, traditional FMCG companies have taken the mass media route while direct to consumer or digital native reaches the consumer digitally.
- Traditional FMCG companies are trying to expand its digital presence with more than 10% business coming from digital and spending media spends on digital platforms.
- There are companies which have started in the digital channels but are getting significant portion of revenue from marketplaces. These companies are also trying to get into the physical channels and advertising on mass media as well.
- The digital native companies are companies that started on the digital channels and are moving towards the other channels.
- Digital native companies and traditional companies both are trying to become omni channel.
- Traditional FMCG companies participate in categories which are meeting the daily need of consumers. They focus on products that are consumed daily.
- Focus for digital native company is to achieve high AOVs and generate high gross margin. This is important for them to work out the unit economics. These products are priced higher to premium mainstream companies.
- Advantages of digital native company are the digital capabilities. They excel in the area of digital marketing and take decisions based on data collected.
- Challenges that a digital native brands face is high cost structures especially cost of acquisition of customer and high supply chain costs. Traditional companies face challenges like focus on existing brands rather than entering new spaces.
- Operating profits of digital first companies that have reached scale is still 6-7% while traditional FMCG companies have operating margin in the 20-25% range.
- Growth story for digital native is rising internet penetration, ecommerce salience and post pandemic acceleration of adoption. For FMCG companies growth will come from low rural penetration.
- Digital companies are present in the premium space. Barring mama earth, other players have not been able to get into the mass and prestige segment.
- There will not be many small players to operate as unit economics don't work out as customer acquisition costs are high.
- BPC as a category was the first one to get disrupted. Digital will impact the high involvement categories. Low involvement (home care) will be less prone to disruptions.
- For a company to reach the INR 2bn scale is doable, however to maintain this levels is difficult.
- Omni channel will be more prevalent, with traditional FMCG companies finding success in digital channels and some of digital companies who have scaled up successfully have a right to win in the offline space.
- While MT and ecommerce will continue to grow, GT will remain the most important channel in the near future. Further, GT is the most effective channel.

Key takeaways:

The incumbent FMCG companies will remain relevant due to large scale and efficient execution. They are picking up pace in the digital space to counter the digital first brands. Omni channel will remain prevalent, with traditional FMCG companies finding success in digital channels and some of the digital first companies reaching scale in offline.

Expert – Technopak

Company brief: Mr. Ankur Bisen has over 21 years of cross-functional experience in strategy, marketing and business development acquired in backdrop of working in India, Greater China and Europe. His special interest area is developing growth strategies and work with PE firms and investors for due diligence of companies in consumer sector.

Speaker
Ankur Bisen,
Senior Partner & Head - Retail, Consumer products and Food

Key discussion points:

- The D2C industry growing from 2bn to 22bn will be driven by incumbents and digital first brands. The 10x jump in D2C will be a zero sum game as part of the traditional sales will be via digital.
- Because of way D2C brands are build, they are modular, they are more nimble and are able to make decisions swiftly.
- Because of modularity, they are not a niche play, rather they are an extended pitch.
- Only catering to a niche won't make the companies cross the INR 10bn mark.
- Third party plug and play enablement has helped the success of D2C. There are no fixed costs, no in-house capabilities and assets needed. Maturing of this third party and D2C has helped each other.
- There are reducing entry barriers, however rising costs are impacting. There are 600 D2C companies with only 5% crossing INR 1bn in revenue. 20% is from INR 200mn to INR 900mn and 75% below INR 200mn.
- It is easy for a company to reach INR 200mn – INR 300mn revenue mark, however it is extremely difficult to reach size of INR 1-2bn.
- To reach the upper threshold, a company cannot stick to the path it had started and needs to get into an extended pitch. Here role of incumbents of building skills come in.
- Mortality rate in the D2C space is high, further many other companies will be acquired while a few will standout (5%).
- There are three growth imperatives in D2C. In the zoom phase it is easy to become a 500mn brand. This will then need to climb further for the next 5-6 years. From zoom to breakout phase, the brands will move from own channel to multichannel of a product/brand play.
- Brands selling on its own website have access to consumer data, which it can use towards its product basket. It can also evolve from having a certain product to a bouquet of products.
- E-commerce is 5% of the retail space and this is expected to grow to 12%. All forms of retail will co-exist. D2C brand will need to have a multichannel presence to reach scale.
- Categories that were suspended due to covid will is seeing a revival. Due to Covid, incumbents have become far more resilient in digital presence.
- The D2C space has become competitive; hence it will be difficult for a brand to survive without a compelling proposition.
- With the rising interest rates, venture funding will be a on a hard call and based on the ability of the brand and product to reach scale. The funding will be very selective.
- Power of an individual brand to hold a market is under significant stress with consumers being more value sensitive rather than being brand loyal.
- Digital marketing spends needs to be efficient so intelligence of the founders or analytics team is a key success factor.

Key takeaways:

The D2C space will see rapid growth coming from both scale-up of digital first companies and increasing online presence of traditional companies. While mortality rate will remain high for digital first companies (75% brands are <INR 200mn), the evolving ecosystem and focus on white space will support digital first companies to counter the mainstream companies.

Disclosure:
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